

PERAC AUDIT REPORT



Marlborough Contributory Retirement System

JAN. 1, 2002 - DEC. 31, 2004 / PERAC 04: 12-053-24



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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October 18, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Marlborough** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **2002** to December 31, **2004**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission. There were no significant findings to report.

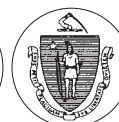
We commend the **Marlborough** Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiner Richard Ackerson who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Marlborough Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2004	2003	2002
Cash	\$1,003,916	\$2,136,322	\$1,371,749
Short Term Investments	0	0	0
Fixed Income Securities (at book value)	0	0	0
Equities	15,189,339	14,294,638	10,851,725
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	17,759,323	15,841,606	12,065,585
Pooled International Equity Funds	10,196,998	8,510,995	6,511,583
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	22,769,733	20,754,108	18,312,679
Pooled International Fixed Income Funds	0	0	0
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	0	0	0
Pooled Real Estate Funds	3,744,672	2,051,168	2,206,163
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	1,871	494	850
Accounts Receivable	4,161,642	2,272,193	3,493,779
Accounts Payable	(71,790)	(142,171)	(70,695)
TOTAL	<u>\$74,755,704</u>	<u>\$65,719,352</u>	<u>\$54,743,418</u>
FUND BALANCES			
Annuity Savings Fund	\$22,023,441	\$20,509,115	\$19,473,638
Annuity Reserve Fund	6,515,960	6,361,763	5,752,663
Pension Fund	6,645,044	6,298,958	6,652,253
Military Service Fund	2,557	2,542	0
Expense Fund	0	0	0
Pension Reserve Fund	<u>39,568,702</u>	<u>32,546,974</u>	<u>22,864,865</u>
TOTAL	<u>\$74,755,704</u>	<u>\$65,719,352</u>	<u>\$54,743,418</u>

Marlborough Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2002)	\$17,703,723	\$5,758,097	\$6,871,655	\$0	\$0	\$26,581,363	\$56,914,838
Receipts	2,429,079	170,947	4,596,541	0	305,462	(3,746,295)	3,755,734
Interfund Transfers	(498,771)	468,928	46	0	0	29,797	0
Disbursements	(160,394)	(645,310)	(4,815,988)	0	(305,462)	0	(5,927,154)
Ending Balance (2002)	19,473,638	5,752,663	6,652,253	0	0	22,864,865	54,743,418
Receipts	2,406,680	178,431	4,801,732	2,542	330,025	9,711,952	17,431,361
Interfund Transfers	(1,112,068)	1,141,910	0	0	0	(29,842)	(0)
Disbursements	(259,135)	(711,241)	(5,155,028)	0	(330,025)	0	(6,455,428)
Ending Balance (2003)	20,509,115	6,361,763	6,298,958	2,542	0	32,546,974	65,719,352
Receipts	2,593,681	187,725	5,714,898	15	377,057	7,017,365	15,890,742
Interfund Transfers	(678,398)	673,988	48	0	0	4,362	(0)
Disbursements	(400,957)	(707,515)	(5,368,860)	0	(377,057)	0	(6,854,389)
Ending Balance (2004)	\$22,023,441	\$6,515,960	\$6,645,044	\$2,557	\$0	\$39,568,702	\$74,755,704

Marlborough Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Annuity Savings Fund:			
Members Deductions	\$2,139,584	\$2,092,596	\$2,033,036
Transfers from other Systems	261,742	82,578	124,886
Member Make Up Payments and Redeposits	71,905	46,162	28,967
Investment Income Credited to Member Accounts	<u>120,450</u>	<u>185,345</u>	<u>242,191</u>
Sub Total	<u>2,593,681</u>	<u>2,406,680</u>	<u>2,429,079</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>187,725</u>	<u>178,431</u>	<u>170,947</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	107,222	96,223	88,560
Received from Commonwealth for COLA and Survivor Benefits	238,676	184,509	269,899
Pension Fund Appropriation	<u>5,369,000</u>	<u>4,521,000</u>	<u>4,238,082</u>
Sub Total	<u>5,714,898</u>	<u>4,801,732</u>	<u>4,596,541</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	2,542	0
Investment Income Credited Military Service Fund	<u>15</u>	<u>0</u>	<u>0</u>
Sub Total	<u>15</u>	<u>2,542</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>377,057</u>	<u>330,025</u>	<u>305,462</u>
Sub Total	<u>377,057</u>	<u>330,025</u>	<u>305,462</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	63,886	36,364	43,036
Pension Reserve Appropriation	0	0	147,336
Interest Not Refunded	2,991	4,072	1,803
Excess Investment Income	<u>6,950,489</u>	<u>9,671,516</u>	<u>(3,938,470)</u>
Sub Total	<u>7,017,365</u>	<u>9,711,952</u>	<u>(3,746,295)</u>
TOTAL RECEIPTS	<u>\$15,890,742</u>	<u>\$17,431,361</u>	<u>\$3,755,734</u>

Marlborough Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

FOR THE PERIOD ENDING DECEMBER 31,			
	2004	2003	2002
Annuity Savings Fund:			
Refunds to Members	\$289,596	\$170,574	\$77,276
Transfers to other Systems	<u>111,361</u>	<u>88,561</u>	<u>83,117</u>
Sub Total	<u>400,957</u>	<u>259,135</u>	<u>160,394</u>
Annuity Reserve Fund:			
Annuities Paid	707,515	684,693	627,249
Option B Refunds	<u>0</u>	<u>26,547</u>	<u>18,061</u>
Sub Total	<u>707,515</u>	<u>711,241</u>	<u>645,310</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	3,539,576	3,390,768	3,190,518
Survivorship Payments	347,975	328,362	319,559
Ordinary Disability Payments	136,123	146,744	163,982
Accidental Disability Payments	906,611	883,302	772,322
Accidental Death Payments	298,975	262,329	245,202
Section 101 Benefits	37,124	36,042	41,182
3 (8) (c) Reimbursements to Other Systems	102,476	107,480	83,222
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,368,860</u>	<u>5,155,028</u>	<u>4,815,988</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	106,486	102,913	100,435
Legal Expenses	9,980	3,113	1,462
Medical Expenses	<u>0</u>	<u>0</u>	<u>0</u>
Travel Expenses	<u>0</u>	<u>0</u>	<u>1,285</u>
Administrative Expenses	16,970	7,475	11,559
Furniture and Equipment	<u>0</u>	<u>1,864</u>	<u>0</u>
Management Fees	185,293	149,098	142,651
Custodial Fees	18,329	16,262	11,571
Consultant Fees	<u>25,000</u>	<u>34,300</u>	<u>21,500</u>
Sub Total	<u>377,057</u>	<u>330,025</u>	<u>305,462</u>
TOTAL DISBURSEMENTS	<u>\$6,854,389</u>	<u>\$6,455,428</u>	<u>\$5,927,154</u>

Marlborough Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDING DECEMBER 31, 2004**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2004	2003	2002
Investment Income Received From:			
Cash	13944.27	10255.13	\$19,432
Short Term Investments	0	0	0
Fixed Income	0	0	55
Equities	262,732	237,143	187,059
Pooled or Mutual Funds	<u>220,009</u>	<u>166,543</u>	<u>159,295</u>
Commission Recapture	<u>5,243</u>	<u>6,517</u>	<u>8,259</u>
TOTAL INVESTMENT INCOME	<u>501,928</u>	<u>420,458</u>	<u>374,101</u>
Plus:			
Realized Gains	1,698,558	1,669,097	478,762
Unrealized Gains	7,191,525	9,658,259	3,690,068
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>1,871</u>	<u>494</u>	<u>850</u>
Sub Total	<u>8,891,954</u>	<u>11,327,850</u>	<u>4,169,680</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(652,031)	(368,118)	(2,171,837)
Unrealized Loss	(1,105,621)	(1,014,023)	(5,589,158)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(494)</u>	<u>(850)</u>	<u>(2,656)</u>
Sub Total	<u>(1,758,147)</u>	<u>(1,382,991)</u>	<u>(7,763,651)</u>
NET INVESTMENT INCOME	<u>7,635,736</u>	<u>10,365,316</u>	<u>(3,219,870)</u>
Income Required:			
Annuity Savings Fund	120,450	185,345	242,191
Annuity Reserve Fund	187,725	178,431	170,947
Military Service Fund	15	0	0
Expense Fund	<u>377,057</u>	<u>330,025</u>	<u>305,462</u>
TOTAL INCOME REQUIRED	<u>685,247</u>	<u>693,800</u>	<u>718,600</u>
Net Investment Income	<u>7,635,736</u>	<u>10,365,316</u>	<u>(3,219,870)</u>
Less: Total Income Required	<u>685,247</u>	<u>693,800</u>	<u>718,600</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$6,950,489</u>	<u>\$9,671,516</u>	<u>(\$3,938,470)</u>

Marlborough Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$1,003,916	1.42%	100
Short Term	0	0.00%	100
Fixed Income	0	0.00%	40 - 80
Equities	15,189,339	21.50%	40
Pooled Short Term Funds	0	0.00%	
Pooled Domestic Equity Funds	17,759,323	25.13%	
Pooled International Equity Funds	10,196,998	14.43%	
Pooled Global Equity Funds	0	0.00%	
Pooled Domestic Fixed Income Funds	22,769,733	32.22%	
Pooled International Fixed Income Funds	0	0.00%	
Pooled Global Fixed Income Funds	0	0.00%	
Pooled Alternative Investment Funds	0	0.00%	
Pooled Real Estate Funds	3,744,672	5.30%	
Pooled Domestic Balanced Funds	0	0.00%	
Pooled International Balanced Funds	0	0.00%	
PRIT Cash Fund	0	0.00%	
PRIT Core Fund	0	0.00%	100
GRAND TOTALS	<u>\$70,663,982</u>	<u>100.00%</u>	

For the year ending December 31, **2004**, the rate of return for the investments of the **Marlborough** Retirement System was 12.18%. For the five year period ending December 31, **2004**, the rate of return for the investments of the **Marlborough** Retirement System averaged 5.37%. For the 20-year period ending December 31, **2004**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Marlborough** Retirement System was 9.73%.

Marlborough Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The **Marlborough** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

January 27, 1994

- 20.03(1) Equity investments shall not exceed 40% of the portfolio valued at market, including international equities, which shall not exceed 5% of the portfolio valued at market.
- 20.04(1) United States based corporations and equities of foreign corporations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

January 12, 1995

- 20.07(9) Commingled real estate shall not exceed 5% of the total book value of the portfolio at the time of purchase provided that:
 - (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
 - (b) such personnel retain authority in the decision making process, and
 - (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

March 7, 1996

- 20.03(1) Equity investments shall not exceed 50% of the portfolio valued at market, including international equities, which shall not exceed 10% of the portfolio valued at market.
- 20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:
 - (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;
 - (b) such personnel retain authority in the decision making process, and
 - (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

Marlborough Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Marlborough** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Marlborough Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Marlborough Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Marlborough Retirement System** submitted the following supplementary membership regulations, which were approved by PERAC on:

December 24, 1985

"Affidavits are not acceptable as proof of employment. Official records such as payroll checks or records, board minutes, official department logs, civil service records, etc. are deemed by the board to be acceptable as proof of employment."

Marlborough Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONTINUED)

March 6, 1986

All employees who are part-time, provisional, temporary, temporary provisional, seasonal or intermittent must work a minimum of twenty (20) hours per week to meet the requirements of membership in the Marlboro Retirement System. (Revised by regulation approved June 3, 1992).

Creditable service for part-time employees shall be prorated as it bears against full-time service. (Revised by regulation approved June 3, 1992).

May 15, 1991

Creditable Service

Full time employees will receive one year of credit for each year employed. Part time employees whose position has always been part time will receive full creditable service.

Part time employees who become full time employees will have their part time service prorated based on the following formula:

35 hours or more - Full credit

26-34 - 75% credit

20-25 - 50% credit

11-19 - 25% credit

10 or less - 15% credit

School department employees who are employed for the school year will receive one year of creditable service.

Membership

All employees, except those specifically exempted under G.L. c. 32 shall become members of the retirement system immediately upon hire.

June 3, 1992

Membership

1. Membership in the Retirement System is mandatory for all non-temporary employees who work twenty or more hours per week.

2. Temporary employees or employees who work less than twenty hours per week are ineligible for membership. A temporary employee is an employee whose position is intended to be less than six months in duration.

Marlborough Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONTINUED)

Creditable Service

1. Full-time employees will receive one year of credit for each year employed. Part-time employees whose position has always been part-time will receive full creditable service.
2. Part-time employees who become full-time employees will have their part-time prorated based on the following formula:

35 hours or more - Full Credit
26 - 34 - 75% Credit
20 - 25 - 50% Credit

3. School department employees who are employed for the school year will receive one year of creditable service.

Credit will not be granted for non-contributory service unless that service would qualify the individual for membership under the supplemental rules currently in force. Credit will not be granted for non-contributory service if the member's period of employment is less than six months in duration.

June 14, 1999

Buy-back military service

Military service credit [pursuant to Chapter 71 of the Acts of 1996] may be purchased anytime before a member's effective date of retirement. Payment for service must be made in a lump sum.

July 19, 2002

Membership

1. Membership in the Retirement System is mandatory for all non-temporary employees who are regularly employed for 20 hours or more per week.
2. Temporary employees or employees who work less than 20 hours per week are ineligible for membership. A temporary employee is an employee whose position is intended to be less than 6 months in duration.

Creditable Service

1. Full-time employees will receive 1 year of creditable service for each year employed. Part-time employees whose position has always been part-time will receive full creditable service.
2. Part-time employees who become full time employees will have their part-time service pro-rated as it related to full-time service.
3. School department who are employed for the school year will receive 1 year of creditable service

Marlborough Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Barbara Martel

Appointed Member: Thomas Abel Term Expires: Indefinite

Elected Member: Gregory Brewster Term Expires: 11/13/05

Elected Member: William Taylor Term Expires: 12/31/05

Appointed Member: Christopher Sandini Term Expires: 01/26/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$50,000,000/\$1,000,000
Elected Member:)	MACRS Policy
Appointed Member:)	
Staff Employee:)	

Marlborough Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Mellon** as of **January 1, 2003**.

The actuarial liability for active members was	\$57,081,450
The actuarial liability for retired members was	<u>48,633,195</u>
The total actuarial liability was	105,714,645
System assets as of that date were (actuarial value)	<u>64,469,594</u>
The unfunded actuarial liability was	<u>\$41,245,051</u>
The ratio of system's assets to total actuarial liability was	61.0%
As of that date the total covered employee payroll was	\$24,404,601

The normal cost for employees on that date was 8.40% of payroll

The normal cost for the employer was 6.10% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 5.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2003	\$64,469,594	\$105,714,645	\$41,245,051	61.0%	\$24,404,601	169.01%
1/1/2001	56,442,796	89,860,187	33,417,391	62.8%	22,546,184	148.22%
1/1/1999	47,693,554	77,713,114	30,019,560	61.4%	19,719,922	152.23%

Marlborough Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2004

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Superannuation	5	7	6	10	13	12	20	5	17	11
Ordinary Disability	0	1	0	0	0	0	1	1	0	0
Accidental Disability	0	0	2	2	1	2	3	1	4	1
Total Retirements	5	8	8	12	14	14	24	7	21	12
 Total Retirees, Beneficiaries and Survivors	 283	 292	 295	 303	 293	 302	 316	 313	 322	 321
 Total Active Members	 517	 531	 550	 589	 621	 654	 676	 707	 676	 707
 Pension Payments										
Superannuation	\$2,029,162	\$2,100,833	\$2,211,114	\$2,285,915	\$2,426,645	\$2,539,374	\$3,100,531	\$3,190,518	\$3,390,768	\$3,539,576
Survivor/Beneficiary Payments	160,568	168,414	180,406	190,928	203,168	252,389	273,816	319,559	328,362	347,975
Ordinary Disability	176,387	180,091	176,451	142,964	137,465	134,710	135,448	163,982	146,744	136,123
Accidental Disability	443,938	436,229	508,854	555,896	577,078	661,666	669,216	772,322	883,302	906,611
Other	<u>247,490</u>	<u>258,503</u>	<u>265,309</u>	<u>252,309</u>	<u>276,422</u>	<u>279,851</u>	<u>345,406</u>	<u>369,607</u>	<u>405,851</u>	<u>438,574</u>
Total Payments for Year	<u>\$3,057,545</u>	<u>\$3,144,070</u>	<u>\$3,342,134</u>	<u>\$3,428,012</u>	<u>\$3,620,778</u>	<u>\$3,867,990</u>	<u>\$4,524,417</u>	<u>\$4,815,988</u>	<u>\$5,155,028</u>	<u>\$5,368,860</u>

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